

Message Text

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PAGE 01 NEW DE 03560 01 OF 02 091338Z

43

ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06

CIEP-02 LAB-04 SIL-01 OMB-01 IGA-02 AGR-10 PC-05 /115 W
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R 091225Z MAR 76

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 4538

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

UNCLAS SECTION 1 OF 2 NEW DELHI 3560

E.O. 11652: N/A

TAGS: ECON IN

SUBJECT: GOI ECONOMY SURVEY 1975-76: OPTIMISM PREVAILS

SUMMARY. ON MARCH 8, FINANCE MINISTER SUBRAMANIAM PRESENTED TO THE PARLIAMENT THE GOI'S ANNUAL ECONOMIC SURVEY FOR 1975-76. IN GENERAL THE SURVEY IS OPTIMISTIC ABOUT THE PERFORMANCE OF THE INDIAN ECONOMY DURING THIS FISCAL YEAR. IT ANTICIPATES OVERALL ECONOMIC GROWTH OF 5.5 PERCENT, AN INCREASE IN AGRICULTURAL PRODUCTION OF 8 PERCENT (INCLUDING FOODGRAINS OUTPUT OF CLOSE TO THE GOVERNMENT TARGET OF 114 MILLION MT), AND HIGHER INDUSTRIAL PRODUCTION BY 4.5 PERCENT. IT EMPHASIZES THE IMPORTANCE OF THE DECLINING TREND IN PRICES IN RECENT MONTHS. DESPITE A GROWING TRADE DEFICIT, THE SHORT TERM BALANCE OF PAYMENTS SITUATION IS DESCRIBED AS RELATIVELY SATISFACTORY. ACCORDING TO THE SURVEY, ECONOMIC PROSPECTS ARE GOOD FOR 1976-77, BUT THE RATE OF SAVINGS AND INVESTMENT SHOULD BE INCREASED AND EXPORTS

UNCLASSIFIED

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PAGE 02 NEW DE 03560 01 OF 02 091338Z

PROMOTED MORE VIGOROUSLY. EMBASSY COMMENTS WILL FOLLOW

LATER IN THE WEEK BY SEPTTEL. END SUMMARY.

1. OVERALL ECONOMIC GROWTH. THE SURVEY STATES THAT BECAUSE OF DECLINING PRICES AND RISING OUTPUT, QUOTE 1975-76 WITNESSED A SHARP BREAK WITH THE STAGFLATION WHICH HAD BECOME A DOMINANT CHARACTERISTIC OF THE INDIAN ECONOMIC SCENE DURING 1972-74 UNQUOTE. THE GROWTH RATE OF THE ECONOMY IN 1975-76 IS PROJECTED AT APPROXIMATELY 5.5 PERCENT.

2. AGRICULTURAL PRODUCTION. THE INDEX OF AGRICULTURAL PRODUCTION IS EXPECTED TO INCREASE ABOUT EIGHT PERCENT THIS FISCAL YEAR, PRIMARILY BECAUSE OF THE FAVORABLE MONSOON LAST SUMMER. FOODGRAINS OUTPUT THIS CROP YEAR IS ANTICIPATED AT CLOSE TO THE GOI TARGET OF 114 MILLION MT (RECORD KHARIF HARVEST OF AROUND 70 MILLION MT PLUS EXPECTED RABI CROP OF 43-44 MILLION MT). THE OUTLOOK FOR MOST OTHER COMMERCIAL CROPS, EXCEPT RAW JUTE, IS HIGHLY ENCOURAGING. THE SURVEY NOTES, HOWEVER, MAJOR PROBLEMS REMAINING IN THIS SECTOR: INSUFFICIENT USE OF FERTILIZERS, INEFFICIENT UTILIZATION OF WATER FROM IRRIGATION PROJECTS, EXHAUSTION OF THE INITIAL IMPETUS OF THE GREEN REVOLUTION IN WHEAT, THE NEED FOR A BREAKTHROUGH IN RICE PRODUCTION, AND THE IMPORTANCE OF INSTITUTIONAL REFORMS IN THE COUNTRYSIDE.

3. INDUSTRIAL SECTOR. THE RATE OF OVERALL INDUSTRIAL GROWTH IN 1975-76 MAY BE AROUND 4.5 PERCENT, WHICH QUOTE CANNOT BE CHARACTERIZED AS ONE OF A GENERAL RECESSION UNQUOTE. PUBLIC SECTOR ENTERPRISES IN CORE SECTORS HAVE DONE WELL; THERE HAS BEEN AN ENCOURAGING TREND IN THE OUTPUT OF CAPITAL GOODS AND INTERMEDIATE PRODUCTS; AND INDUSTRIAL BOTTLENECKS (POWER, TRANSPORT, AGRICULTURAL RAW MATERIALS) HAVE BEEN OVERCOME. ON THE OTHER HAND, THE PERFORMANCE OF COTTON TEXTILES, CONSUMER DURABLES, AUTOMOBILES AND PLASTICS HAS BEEN UNSATISFACTORY BECAUSE OF SLACK CONSUMER DEMAND. INDUSTRIAL INVESTMENT IS SLUGGISH, PARTLY BECAUSE OF THE STEEP INCREASE IN THE COSTS OF MACHINERY AND EQUIPMENT IN RECENT YEARS. THE NUMBER OF MAN-DAYS LOST BECAUSE OF INDUSTRIAL UNREST HAS FALLEN SHARPLY SINCE JUNE 1975. THERE HAS BEEN SOME DETERIORATION IN THE EMPLOYMENT SITUATION, REFLECTED IN THE INCREASING NUMBER OF REGISTERED UNCLASSIFIED

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PAGE 03 NEW DE 03560 01 OF 02 091338Z

JOB-SEEKERS, BECAUSE OF SLOW INDUSTRIAL GROWTH IN RECENT YEARS.

4. PRICES AND DISTRIBUTION. THE SURVEY EMPHASIZES THE IMPORTANCE OF THE PERSISTENT DECLINE IN PRICES DURING RECENT MONTHS. AS OF MID-FEB. 1976 WHOLESALE PRICES WERE DOWN BY EIGHT PERCENT IN TWELVE MONTHS; FOR THE FIRST TEN MONTHS OF THIS FISCAL YEAR THEY AVERAGED 2.4 PERCENT

LOWER THAN THE COMPARABLE PERIOD OF THE PREVIOUS FISCAL YEAR. CONSUMER PRICES HAVE ALSO DECLINED, BUT NOT AS MUCH. WITHIN THE FRAMEWORK OF A TIGHT MONETARY POLICY, EMERGENCY-RELATED ACTION AGAINST HOARDING AND BLACKMARKETING PLUS INCREASED FOOD SUPPLIES HAVE RESULTED IN THESE WELCOME PRICE TRENDS. ALSO, THE STRENGTHENING AND EXPANSION OF THE PUBLIC DISTRIBUTION SYSTEM HAS BEEN AN IMPORTANT ELEMENT IN THE GOVERNMENT'S ANTI-INFLATIONARY POLICY. FOOD STOCKS WITH THE GOVERNMENT STOOD AT 7.7 MILLION MT BY THE END OF DECEMBER 1975, WITH THE EXPECTATION OF AN INCREASE TO APPROXIMATELY 11 MILLION MT BY APRIL 1, 1976.

5. MONETARY POLICIES. THE GO'S TIGHT CREDIT POLICY HAS BEEN RELAXED SOMEWHAT IN RECENT MONTHS. THE EXPANSION OF THE MONEY SUPPLY HAS ACCELERATED SINCE AUGUST 1975; DURING THE FIRST TEN MONTHS OF THIS FISCAL YEAR IT HAS GROWN 6.7 PERCENT (COMPARED TO 4.1 PERCENT IN THE CORRESPONDING 1974-75 PERIOD). THE TWO MAJOR REASONS FOR THIS INCREASE HAS BEEN CREDIT TO THE COMMERCIAL SECTOR AND FOREIGN EXCHANGE ASSETS OF THE BANKING SYSTEM. HOWEVER, INFLATIONARY PRESSURES HAVE NOT YET RESULTED IN 1975-76 BECAUSE OF THE FAVORABLE SUPPLY POSITION AND CHECK ON SPECULATIVE BLACK-MARKET ACTIVITIES. CONDITIONS IN 1976-77 MAY NOT BE AS FAVORABLE, AND THE RATE OF GROWTH OF MONEY SUPPLY MUST BE CAREFULLY WATCHED TO MAINTAIN PRICE STABILITY. SAXBE

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PAGE 01 NEW DE 03560 02 OF 02 091415Z

43

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UNCLAS SECTION 2 OF 2 NEW DELHI 3560

6. FISCAL TRENDS. THE EMPHASIS IN THE CENTRAL GOVERNMENT 1975-76 BUDGET HAS SHIFTED TO PROVIDING A MUCH NEEDED STIMULUS TO SAVINGS AND INVESTMENT. BOTH CENTRAL GOVERNMENT EXPENDITURES AND REVENUES THIS FISCAL YEAR ARE HIGHER THAN ORIGINALLY EXPECTED. THE ESTIMATED BUDGETARY DEFICIT OF RS. 2,470 MILLION IS LIKELY TO BE EXCEEDED, ALTHOUGH IT DOES NOT NOW APPEAR TO POSE AN INFLATIONARY DANGER. THE FINANCIAL PICTURE OF THE STATES AND PUBLIC SECTOR ENTERPRISES IS BETTER BECAUSE OF INCREASED REVENUES. NEVERTHELESS, THE AGRICULTURAL SECTOR SHOULD BE MORE HEAVILY TAXED (E.G. IRRIGATION RATES ARE TOO LOW), AND ELECTRICITY RATES SHOULD BE HIGHER. IN GENERAL THE TAX STRUCTURE SHOULD BE RATIONALIZED TO ENCOURAGE MORE SAVINGS AND INVESTMENT.

7. BALANCE OF PAYMENTS. DURING APRIL-DECEMBER 1975 (COMPARED TO THE SAME 1974 PERIOD) THE VALUE OF INDIAN IMPORTS INCREASED BY 23 PERCENT AND EXPORTS ABOUT 15 PERCENT. AS A RESULT, THE TRADE DEFICIT WIDENED TO RS. 11,114 MILLION IN APRIL-DECEMBER
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PAGE 02 NEW DE 03560 02 OF 02 091415Z

1975. (ACCORDING TO LATEST TRADE DATA, IT HAS INCREASED FURTHER TO RS. 12,356 MILLION FOR THE FIRST TEN MONTHS OF 1975-76.) NEVERTHELESS, THE FOREIGN EXCHANGE RESERVE POSITION IS RELATIVELY SATISFACTORY IN THE SHORT RUN BECAUSE THE SURPLUS FROM INVISIBLES AND NET RECEIPTS OF EXTERNAL ASSISTANCE HAVE OFFSET THE TRADE IMBALANCE. GROSS INFLOW OF AID IN 1975-76 IS EXPECTED TO INCREASE BY 22 PERCENT TO RS. 16,390 MILLION, ALTHOUGH IN RECENT YEARS IT HAS FINANCED A DECLINING SHARE OF THE VALUE OF INDIAN IMPORTS (ABOUT 30 PERCENT IN 1975-76.) NEVERTHELESS, THE MEDIUM TERM OUTLOOK FOR THE BALANCE OF PAYMENTS IS UNCERTAIN BECAUSE THE DEMAND FOR IMPORTS IS EXPECTED TO INCREASE FURTHER IF THE INDUSTRIAL SECTOR GROWS AND THE RATE OF INVESTMENT IS STEPPED UP. ALSO, THE EXTERNAL DEBT BURDEN IS INCREASING. IT IS IMPORTANT THAT EXPORT GROWTH BE EMPHASIZED MORE, INCLUDING AN EXPORT TARGET OF 8-10 PERCENT ANNUAL INCREASE IN VOLUME TERMS, AND THAT DEPENDENCE ON IMPORTED OIL BE REDUCED.

8. OUTLOOK FOR 1976-77. ACCORDING TO THE SURVEY, QUOTE THE DECLINING TREND OF PRICES SINCE OCTOBER 1974, THE HIGHLY FAVORABLE PROSPECTS FOR ECONOMIC GROWTH IN 1975-76 AND THE MUCH GREATER EMPHASIS ON ECONOMIC DISCIPLINE SINCE THE LAUNCHING

OF THE NEW ECONOMIC PROGRAM (ON JULY 1, 1975) HAS NOW
CLEARED THE DECKS FOR THE PURSUIT OF A MORE PURPOSEFUL
GROWTH ORIENTED STRATEGY. IT IS LIKELY THAT IN THE NEXT
TWO OR THREE YEARS THERE WILL BE A SUBSTANTIAL IMPROVEMENT
IN THE GROWTH PERFORMANCE OF THE ECONOMY AS COMPARED WITH
PAST TRENDS UNQUOTE. BECAUSE OF THE GENERAL IMPROVEMENT
IN THE SUPPLY OF POWER, FERTILIZERS AND HIGH QUALITY SEEDS
AGRICULTURAL PRODUCTION SHOULD GROW FURTHER IN 1976-77.
THE OUTLOOK FOR INDUSTRIAL PRODUCTION THIS COMING YEAR
IS FAIRLY PROMISING. NEVERTHELESS, THE SURVEY ADMITS THAT
INDIA HAS A LONG WAY TO GO BEFORE OVERALL ANNUAL GROWTH
RATES AT CLOSE TO THE PLANNED TARGET OF 5.5-6 PERCENT CAN
BE SUSTAINED. A SUBSTANTIAL INCREASE IN INVESTMENT,
PARTICULARLY IN THE PUBLIC SECTOR, AND SAVINGS IS NEEDED
IN ORDER TO BRING ABOUT A FASTER RATE OF ECONOMIC GROWTH
AND CONTAIN INFLATIONARY PRESSURES. INVESTMENT SHOULD
BE DIVERTED AWAY FROM LUXURY HOUSING AND CONSUMPTION
TOWARD PRODUCTIVE, HIGH PRIORITY SECTORS. HIGHER
INDUSTRIAL PRODUCTION SHOULD BE SECURED LARGELY BY INCREASED
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PAGE 03 NEW DE 03560 02 OF 02 091415Z

DEMAND FOR MASS CONSUMER GOODS, HIGHER AGRICULTURAL
PRODUCTIVITY AND FASTER EXPANSION IN INDUSTRIAL EXPORTS.
THE PUBLIC DISTRIBUTION SYSTEM SHOULD BE STRENGTHENED
FURTHER, AND THE POOREST SECTIONS OF THE SOCIETY SHOULD
MORE ADEQUATELY SHARE IN THE FRUITS OF ECONOMIC PROGRESS.
AN INTEGRATED APPROACH TO RURAL DEVELOPMENT IS NEEDED.
THE SURVEY CONCLUDES THAT QUOTE GIVEN THE NECESSARY
POLITICAL WILL AND EXERCISE OF STRICT ECONOMIC DISCIPLINE,
WE CAN HOPE TO SOFTEN CONSIDERABLY THE HARSH CONTOURS OF
EXTREME POVERTY. IT IS NECESSARY NOW TO BUILD ON THE POSITIVE
RESULTS ACHIEVED IN RECENT MONTHS SO AS TO WORK OUT A
COMPREHENSIVE MEDIUM TERM STRATEGY FOR SELF-SUSTAINED GROWTH UNQUOTE.

9. WE ARE POUCHING FIVE COPIES OF THE ECONOMIC SURVEY TO
WASHINGTON. EMBASSY COMMENTS ON THE SURVEY WILL FOLLOW
LATER IN THE WEEK BY SEPTTEL.SAXBE

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